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International Economic & Energy Weekly

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19 April 1985

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International Economic & Energy Weekly [redacted]

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International Economic & Energy Weekly 25X1

Synopsis

International Economic & Energy Weekly [redacted] 25X1

19 April 1985

Perspective

Morocco: The Economy and Stability [redacted] 25X1

Morocco's inability, so far, to redress its deteriorating economy, high unemployment, and rising expectations of the young has led to increasing popular discontent. Managing these challenges is taxing even the political skills of King Hassan II and may over time destabilize the country. If badly needed aid is not forthcoming from the West, Rabat may seek closer ties with Libya or the Soviet Bloc as a second best solution. [redacted] 25X1

Morocco's economic problems will remain severe for the rest of the decade:

- World prices and demand for phosphate—Morocco's main export—probably will not rebound in the near term.
- A burgeoning population and six years of drought have forced a sharp increase in food imports. In addition, Morocco imports almost all of its energy requirements.
- The seemingly endless Western Saharan conflict continues to divert resources from social and economic programs. [redacted] 25X1

The nation's financial crunch requires massive additional debt relief. Even with rescheduling, substantial financial gaps will remain. Moreover, relations with Paris and London Club creditors have been tarnished by payment delays necessitated by dwindling foreign exchange reserves. Failure to cover arrears on US CCC credits forced the termination of US grain shipments in 1985 that is causing a serious food shortfall. In addition, the rapid deterioration of military equipment is causing Rabat to undertake a costly modernization program to meet the perceived Algerian and Polisario threat. [redacted] 25X1

Foreign assistance from traditional sources will remain tight. France has turned down Moroccan requests for new military purchases until Rabat clears up large arrears and is also reluctant to supply additional grain. Saudi Arabia has agreed to provide up to 50 percent of Morocco's oil needs this year, but Riyadh is unlikely to provide more than emergency economic assistance. [redacted] 25X1

The Moroccan-Libyan union has bought some time by raising popular expectations about financial aid and jobs in Libya. Economic benefits of the union have been few so far. Libyan aid is not likely to be sufficient or timely enough to head off short-term trouble. Nevertheless, Rabat will continue the union as long as Qadhafi does not meddle in its internal affairs or renew support to the Polisario Front. [redacted] 25X1

Popular discontent is being fueled by a widening gap between a wealthy few and impoverished many. Unemployed youth are a growing problem—half the population is under 20—and planned budget cuts for education will prove unpopular. The poor, the young, intellectuals, and urban professionals have increasingly turned to Islamic fundamentalism as a means of expressing their discontent with the regime. We believe the unhappiness arising from secular socioeconomic problems in the long run could erode the King's status as defender of the Islamic faith. During widespread riots in January 1984, for example, fundamentalists helped foment unrest by distributing tracts attacking the King's economic mismanagement and ostentatious lifestyle. Moreover, three major parties refused to participate in a new government formed this month because they strongly disagree with the regime's economic program. [redacted] 25X1

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We believe Hassan is aware of the pitfalls ahead. [redacted] we expect that the King will have to rely more heavily on his fairly effective security and military forces to suppress discontent. [redacted] 25X1

If Rabat does not receive adequate aid from its traditional supporters, we believe that Morocco will seek closer economic ties with Eastern Europe and the Soviet Union to expand trade and other commercial relations. Hassan courted the Soviets in the 1960s and knows that aligning his policies with them will not solve Morocco's long-term problems, would damage his moderate image, and reduce his flexibility. Nevertheless, the significance attached to new trade accords signed in September 1984 and comments by key Moroccan officials underscore a willingness to consider, if not undertake, closer ties to the Bloc. [redacted] 25X1

Morocco: Austerity and the Military [redacted] 25X1

Morocco's weak financial situation is making it hard for the military to maintain or modernize its equipment. In addition, the long war in Western Sahara and poor maintenance are rapidly taking US- and French-made army equipment out of operation. Despite tough austerity measures to stem the deterioration of the economy, Rabat is shopping for new arms. Efforts to rebuild inventories and purchase new equipment will be hampered by the need to reschedule more military debt this year and to balance urgent social needs against military modernization. In particular, Morocco is seeking US fighter aircraft and armored equipment and will push for concessional financing at the Joint Military and Economic Commission meetings in Washington next month. [redacted]

Military Modernization

The Royal Moroccan armed forces have been largely apolitical since senior officers led two coup attempts against King Hassan in 1971 and 1972. [redacted] that political or military setbacks in the nine-year-old war, economic problems affecting the flow of materiel, or a reduction in living standards could cause the military to turn against the King. Hassan is sensitive to this and has consistently stated that defense will continue to receive priority despite severe spending cuts elsewhere under Morocco's IMF-guided austerity program. Hassan recently announced that he hopes to raise $1 billion to spend on arms over the next five years. [redacted]

A critical element in Rabat's continued emphasis on defense spending is the need for new arms. Equipment losses in the Saharan war have not been replaced. Furthermore, Moroccan armed forces have not kept pace with the modernization and increased capabilities of the Algerian military, which Morocco sees as the major external threat. [redacted] 25X1

Morocco's Economic Prospects

Morocco's financial position is precarious. Official nongold reserves of about $49 million cover less than a week of imports. A large debt service burden—$2.5 billion—will force Rabat to reschedule its foreign debt again this year. Several drought years and weak markets for Morocco's primary exports—phosphate and citrus fruit—have frustrated efforts to redress economic problems. The current account deficit—$1.2 billion last year—persists despite the sharp decline in the burdensome oil bill since 1981—84 percent of energy supplies are imported. Coupled with a burgeoning population—over 50 percent is under 20—the country's economic ills have produced a serious unemployment situation. Thirty percent of the urban work force is unemployed. [redacted] 25X1 25X1

Continued austerity will be the rule through the end of the decade if Morocco is to right the economy. As a result, only limited economic growth and no improvement in the standard of living is expected over the next several years. With limited financial reserves and a debt service ratio projected to exceed 60 percent this year—without debt rescheduling—on Morocco's $13 billion foreign debt, Rabat has no alternative but to look for additional debt relief—including military debt—through 1987. Morocco's pressing social problems will increasingly consume scarce financial resources if the regime is to forestall unrest. [redacted] 25X1 25X1 25X1

[redacted] of particular concern to the military is the rapid decline in operational readiness because of a lack of spare parts. Unforeseen diversion of maintenance funds and frequent cannibalization of equipment further lower the readiness posture. [redacted]

[redacted] Saudi Arabia and the United Arab Emirates will provide funds for a comprehensive military modernization program. Included in the plan are US-made M48A5 tanks to replace wornout tanks and upgrade the armored forces. Artillery is to come from the United Kingdom or Spain. [redacted] To refurbish military transportation, Rabat will rely on Moroccan-assembled trucks and Japanese heavy equipment transport. In addition, we believe that Morocco also is looking for a source of armored personnel carriers. [redacted]

The Moroccan Air Force wants to improve its air defense capability by acquiring 24 to 36 US-made F-16s or Mirage 2000s from France. [redacted]

Morocco: Selected Military Comparisons, Yearend 1984

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	Morocco	Algeria
Fighter aircraft	81	217
Tanks	328	995
APCs	914	1,836
Field artillery	222	945

[redacted]

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The Military and the Economy

Morocco's defense needs have averaged about 22 percent of the national budget and 6 percent of GDP over the past decade. Rabat has allocated this year $640 million for the armed forces and another $170 million for the national police. Only education claims a larger share of national revenues. Official defense figures, however, probably understate actual spending; the cost of the Saharan conflict is estimated at $1 million per day by the US Embassy and is in addition to costs Morocco incurs for equipment, maintenance, modernization, and military preparedness. [redacted] 25X1 25X1

Morocco's financial crunch and inflation have constrained real growth in defense spending since 1979. Moreover, these problems have forced fundamental changes in defense spending priorities. Contracts for new materiel as well as deliveries have declined, and military personnel costs have consumed an increasing share of available resources. [redacted] 25X1 25X1

Rabat's deteriorating financial position has resulted in the reliance on foreign credits and grants to maintain its military. France, Spain, and the United States have been primary sources of materiel and arms loans. Saudi Arabia also provided as much as $350 million in military aid annually from 1977 through 1982. This aid was halted because of Morocco's questionable accounting practices and Riyadh's higher priorities in the Middle East. The USSR was a primary supplier before perceived Soviet complicity in the Saharan conflict caused King Hassan to terminate the relationship. Morocco's weakened financial position, however, has caused sizable arrears to mount on Rabat's $1.2 billion military debt—much of it accumulated over the past five years—especially to the French. Rabat also has narrowly avoided default on US FMS loans on several occasions. [redacted] 25X1

Morocco: Estimated Foreign Military Debt, Yearend 1984

Total	**1,175**
Austria	95
Belgium	73
Canada	6
France	610
Italy	45
Spain	170
United Kingdom	4
United States	160
West Germany	12

[redacted]

Morocco: US Foreign Military Sales Financing

Million US $

Fiscal Year	Total	Loans	Grants	IMET [a]
1980	25.9	25.0	0	0.9
1981	34.4	33.4	0	1.0
1982	31.1	30.0	0	1.1
1983	101.3	75.0	25.0	1.3
1984	58.2	26.7	30.0	1.5
1985 [b]	51.7	10.0	40.0	1.7

[a] International Military Education and Training grant assistance.
[b] Requested.

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[redacted]

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Outlook

We believe that over the next two years Moroccan military equipment requirements will become acute. The Western Saharan war is a popular cause in Morocco, and the King has little choice but to continue his military effort until a solution favorable to Morocco is found. If the King is perceived as not providing adequately for military requirements, he is likely to face strong opposition from the armed forces. [redacted]

In our opinion, Hassan will give priority to military modernization at the expense of social and economic development. Although this approach wins him the support of the military, the costs of the war are being questioned by some influential Moroccans and could eventually cause trouble for the King. [redacted]

Morocco will be hard pressed to finance its military modernization program from traditional sources of aid. Saudi Arabia has questioned the prudence of Rabat's military spending in the past, and [redacted] Riyadh is not likely to underwrite the total cost of Hassan's modernization program. The Saudis probably will provide as much as $150 million annually for emergency needs but will look to the West to shoulder a greater share of Morocco's defense purchases. [redacted]

France already has refused to supply new fighter aircraft until financing is assured, a policy that probably will be extended to other Moroccan arms requests. The US Embassy in Rabat estimates that about $6 million in overdue payments remain subject to Brooke amendment sanctions this year—Rabat recently paid $12.5 million to avert default on 30 April. Available US FMS credits for fiscal year 1985 are barely sufficient to maintain the operational status of US-origin equipment. [redacted]

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Closer US-Moroccan ties, initially well received in Morocco, are being criticized more frequently by senior Moroccan officials. Morocco may reduce its military cooperation if the terms or levels of US aid do not meet Rabat's expectations. [redacted]

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If Hassan is unable to obtain arms from Western sources, we believe he will turn to Qadhafi, his partner in the Moroccan-Libyan union. Libyan military stockpiles, especially Soviet-made ground force equipment, are more than adequate to fill Morocco's immediate needs—for example, Libya has about 1,450 tanks in storage. Poor Algerian-Libyan relations probably would provide Qadhafi

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with reason to honor Hassan's request. In addition, the King may turn to Moscow for arms, as he has repeatedly intimated to US officials. Morocco has used phosphates as barter for Soviet goods in the past and could use the output from the renewed Moroccan-Soviet phosphate development project to facilitate expanded military trade. 25X1

Summit Issues: The New GATT Round [redacted] 25X1

Last month, the EC Council formally endorsed holding a new round of GATT multilateral trade negotiations, even suggesting that the talks be called the Brussels Round. This action, along with last week's OECD ministerial decision to hold a GATT preparatory meeting this summer, reduces the distance between Summit participants. Nevertheless, much remains to be settled before the United States realizes its objective of launching a trade round by 1986 covering services and other new areas. [redacted]

Summit Country Positions

At the Summit, leaders will discuss timing, agenda, and how to broaden support for a new round among developing countries. Although the OECD ministerial decision moved the EC and France beyond their March positions on timing, both still refuse to commit to the early 1986 start sought by the United States. Some West European countries remain reluctant to enter into negotiations in areas such as high technology where they feel at a competitive disadvantage. The Summit participants want LDC participation in a new round to be as broad as possible to achieve significant North-South trade liberalization and to provide a political endorsement of the GATT system. [redacted]

France will be most resistant to an early launch of a new trade round. Diplomatic reporting indicates that Paris—which almost certainly will have the support of ***Italy***—will continue to stress two preconditions for initiating the talks:

- Better clarification of the agenda, especially regarding services and high-technology issues.
- Broad support from the developing countries.

[redacted]

Paris has also argued that monetary issues should be discussed simultaneously with trade. The US statement at last week's OECD ministerial, however, opening the possibility of a high-level meeting on monetary issues, blunts French threats to hold up action on the new round because of the trade-money link. French President Mitterrand is likely to try at the Summit to pin the United States down on the monetary talks, reminding US officials that Paris still considers this the quid pro quo for French cooperation in the new round. [redacted] 25X1

Mitterrand may, nevertheless, try to stall a new round by arguing that the agenda must be clarified. 25X1
[redacted] 25X1
Mitterrand may argue that high technology is not sufficiently defined to be singled out for GATT treatment, but should be lumped with other industrial goods. [redacted] 25X1

West Germany, the ***United Kingdom,*** and ***Canada*** are firmly committed to the new trade round, although they will argue at the Summit that the issue still must be approached cautiously. London and Bonn's enthusiasm will be tempered by their desire to maintain an EC consensus. Ottawa hopes a new round will stem what it perceives as mounting protectionist sentiment in the United States. 25X1
West German officials have warned US diplomats that they do not want to force the pace of the new talks if it risks alienating Bonn's EC partners. Bonn has similarly underscored the importance of securing the participation of at least the major developing countries before initiating the new round. West German officials may want to avoid appearing to issue the LDCs an ultimatum on the precise opening date of the talks and may, therefore, favor postponing that decision until the preparatory meeting this summer. [redacted] 25X1 25X1

In addition to their concerns over timing, Bonn and London have stressed that inadequately prepared negotiations will soon founder, leading to recriminations on both sides of the Atlantic. Bonn and London favor discussing services, although they feel the issues need clarification, particularly for financial services. They also are willing to explore high technology but agree with France that it remains an ambiguous issue.

Although the ***EC Council*** in mid-March endorsed Community participation in the new round, because of continuing differences among EC members, Commission President Delors probably will try to stick to the Council's declaration and resist any further commitments at Bonn. The declaration made Community support for the new round contingent on the establishment of an international consensus on timing and objectives. The Council signaled EC willingness to discuss trade in services but put agriculture almost entirely off limits. In addition, the declaration excluded any mention of high technology and asserted that results in the monetary and financial areas should be sought in parallel with results in the trade field. Delors may try to keep a low profile in Bonn and allow EC members—especially France—to take the lead.

Japan will support efforts to advance preparations for a new round. Although Prime Minister Nakasone approves of the trade liberalization a new round can achieve, other Japanese officials may hope that a lengthy round will provide an excuse to defer aspects of Japanese trade disputes with the United States and the EC. Japanese enthusiasm for a new GATT round has not been dampened by plans of the EC, as well as East Asian LDCs, to make Japan a major target.

The LDC Perspective

Relatively few developing countries have endorsed a new GATT round. Developing-country GATT members, informally led by Brazil and India, have attempted to obstruct a new round. They announced last year that they would consider participating only if the industrial countries first eliminate many barriers to Third World exports and agree to a separate round of North-South negotiations restricted to trade in goods. 25X1

The strong unity that developing countries displayed in 1984 has weakened, however. The 25X1
ASEAN nations and South Korea have indicated a willingness to participate. EC officials, according to diplomatic sources, believe that other LDCs, even India, can be won over by a new round's promise of restraining protectionism and improving access to industrial country markets. Brazil shows no sign of altering its hard line, but, if it and a few other developing countries could be isolated, we believe they might agree to participate rather than be excluded. 25X1

After the Summit

Last week's OECD ministerial decision to hold a new round preparatory meeting this summer makes an early 1986 start for a new GATT round likely, although agreement on a launch date may not come until after the Bonn Summit. The interval between 25X1
the Summit and this summer's meeting in GATT will probably be taken up with developed-country efforts to broaden participation. The commitment in last month's EC ministerial declaration to enlist support from developing countries for the new GATT round promises greater European efforts in this area. Many developing countries have probably been watching the EC— particularly France—as a barometer for the new round and now may be more 25X1
open to arguments for LDC participation.

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Nicaragua: Oil Problems and Prospects [redacted] 25X1

Nicaragua has experienced five serious oil shortages since mid-1984; the closure of its only refinery in February—because of a lack of crude—marked the worst oil crisis in 20 years. [redacted] The US Embassy reports public transportation was nearly at a standstill during late February and early March after almost all gas stations were shut down and hundreds of cars were abandoned. [redacted] there was no oil for farm and other types of machinery and no fuel to transport workers during the critical final phase of Nicaragua's coffee and cotton harvest. On the basis of press and US Embassy reports on the severity of the shortages, we believe the military also experienced spot operational shortages, even though it was allocated a greater share of the country's oil supplies than its normal level. Managua faces the prospect of further, potentially serious shortfalls even as its dependence on Soviet deliveries and Cuban technical expertise is likely to continue to grow. [redacted]

Dependence on Imports

Nicaragua has no domestic crude oil resources, and its one refinery is capable of processing only 80 percent of the country's petroleum product needs. As a result, Managua imports all of its crude oil and some additional petroleum products, including transportation fuels, kerosene, and petrochemicals. Because petroleum product reserves are low and domestic storage capacity is limited, Nicaragua depends on frequent deliveries of petroleum products. [redacted]

The Sandinistas' hard currency bills for oil imports, however, have been greatly cushioned by concessional financing from first its Latin and later its Soviet suppliers. Under the terms of the San Jose Accord, beginning in August 1980, Mexico and Venezuela offered a stable supply of subsidized crude oil to Nicaragua, as well as to other Central American and Caribbean countries. In mid-1982, however, Venezuela stopped deliveries because the Sandinistas had fallen behind on their payment obligations. [redacted] Even though Mexico received only occasional token payments, it initially increased deliveries to take up the slack for what we believe are political reasons. From mid-1982 to late 1983, Mexico covered virtually all of Nicaragua's requirements. [redacted]

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Mexico City toughened its terms in early 1984 in an effort, we believe, to give more balance to its Central American policies, to encourage Managua to moderate its hardline position on regional issues, and to respond to increasingly vocal conservative elements in Mexico. As a result, deliveries became less frequent, and its shipments of crude oil and refined products dropped from an average of just over 10,000 b/d in 1983 to only one shipment of crude so far in 1985. To downplay political goals, Mexico City has publicly emphasized that it will not resume its role as a long-term oil supplier until Managua pays the more than $500 million it owes for past shipments. [redacted] 25X1

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Soviets Take Up the Slack

In 1985 the USSR will supply almost all of Nicaragua's petroleum requirements either directly or through arrangements with Cuba. Soviet petroleum shipments to Nicaragua began in December 1983, and during 1984 Soviet deliveries matched those 25X1

POL Entry Ports and Transshipment Routes

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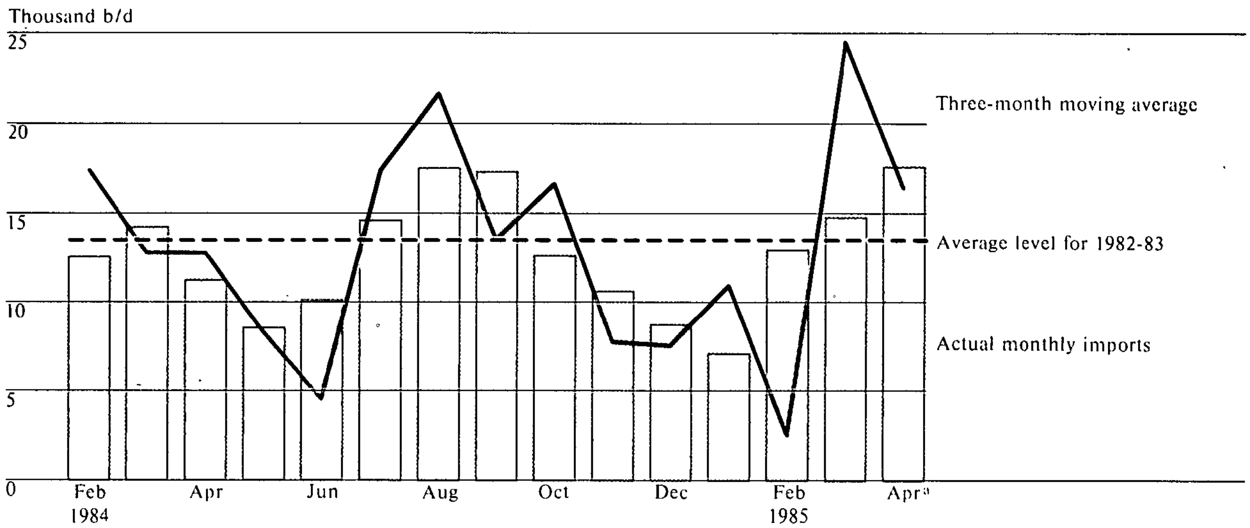
Nicaragua: Oil Imports, 1984-85



[a] Estimated.

[redacted] 25X1

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from Mexico. [redacted] 25X1

In addition to assuming responsibility for the bulk of Nicaragua's oil needs, Moscow—in a marked departure from its typical commercial policy—has permitted Nicaraguan oil payments to lapse. Although we do not know the details of oil sales terms, Moscow has required at least token payment in Nicaraguan commodities including cotton, coffee, and other farm products [redacted] In view of Nicaragua's precarious financial position, the Soviets probably believe that the Sandinistas will be unable to make significant payment for years. [redacted] 25X1

Looking To Share the Burden

Even though the burden on the Soviets is small—at world prices, 1984 Soviet deliveries would have been valued at $60 million out of total hard currency oil export earnings of about $15 billion—Moscow has been searching for alternate or lower cost suppliers to Nicaragua. To provide the amounts of oil Managua requires and save transportation costs, Moscow has attempted to get other regional sources—Venezuela and Ecuador—to supply crude oil and petroleum products to Nicaragua in return for Soviet deliveries elsewhere. [redacted] 25X1

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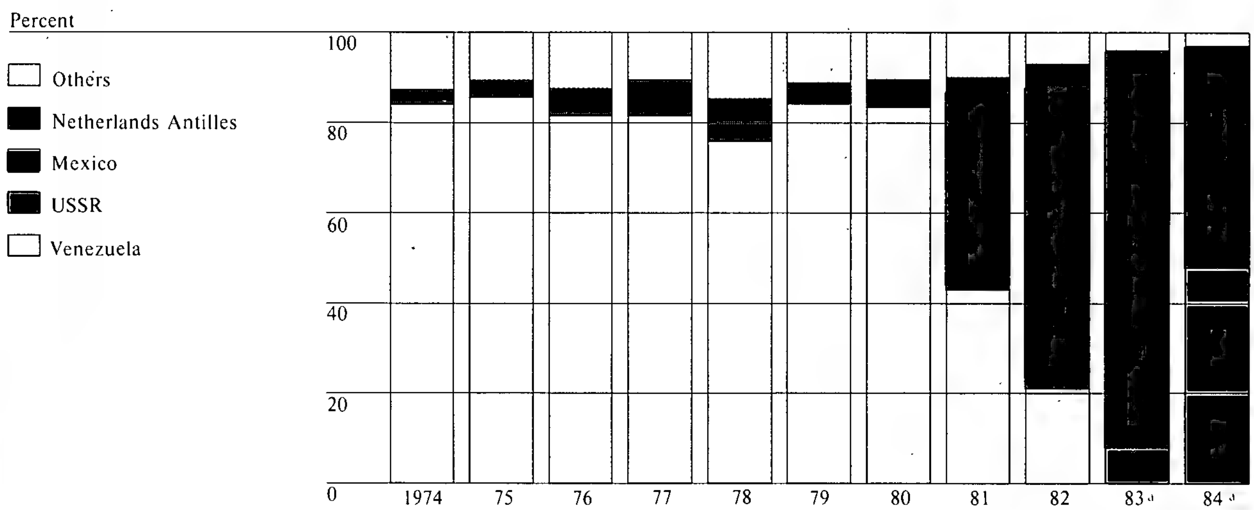
Nicaragua: Imports of Crude Oil and Oil Products, By Supplier, 1974-84



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[redacted]

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Petroleum Infrastructure Deficiencies

In addition to coping with uncertain deliveries, Nicaragua's petroleum infrastructure is plagued by a limited distribution system, inefficient refining capabilities, and a lack of skilled managers. [redacted] because of financial constraints and mismanagement, the Sandinistas are not properly maintaining plants, equipment, and the transport system. [redacted]

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Transportation and Storage

The petroleum distribution system has been particularly susceptible to disruption, [redacted] For example, all crude enters at Puerto Sandino and is piped 56 kilometers to the refinery in Managua. The crude storage tanks located at both ends of the pipeline can hold less than two months of the refinery's crude requirements. No alternative to the pipeline exists; [redacted]

Corinto—the only port that can handle large tanker loads of refined oil products—can store no more than approximately one month's supply. Corinto's petroleum facilities were designed to supplement the refinery by allowing imports of specialty products and providing some additional distribution capacity. Its remote location limits the extent to which trucks can distribute petroleum products around the country. [redacted]

Another logistic bottleneck involves moving petroleum products to Nicaragua's east coast. Fuel is trucked from the refinery to the interior port of Rama and then shipped by aging barges to the Caribbean ports, which serve as regional distribution points for the fishing industry, military installations, and Nicaragua's mining sector. [redacted]

Refinery Deterioration

[redacted] before the latest shutdown on 13 February, Nicaragua's refinery was operating at only two-thirds of its 15,000-b/d capacity. Built and maintained by its foreign owner, the refinery is now closely regulated by Petronic, the Nicaraguan state oil company. The owner, however, still provides top management and technical services, [redacted] 25X1

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Nicaragua's Oil Situation in 1985

Nicaragua will probably suffer periodic disruptions of oil supplies throughout the remainder of 1985. We expect the current state of disrepair of the refinery, pipelines, and transportation system to occasionally disrupt processing and distribution, even if there are no unexpected crude import problems. [redacted] 25X1

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We believe Nicaragua's biggest challenge will be keeping the refinery open. If the current owner sells the refinery to the Sandinistas, Nicaragua will need to depend increasingly on Cuban and Soviet financial and technical assistance. We see no evidence that Moscow or Havana, as yet, have made contingency plans to address this concern. [redacted] 25X1

If, through gross Sandinista mismanagement, mechanical failure forced the refinery to close down for two months or more, the consequences to the 25X1

Nicaraguan economy would be disastrous. Petroleum shortages would virtually eliminate public transportation, disrupting food distribution. There would be no oil for agricultural or industrial machinery, which would severely limit exports. Demand for fuel from both the private sector and the military would overwhelm Nicaragua's ability to distribute refined petroleum products from the import terminal of Corinto. The Sandinistas would probably be forced to reduce military fuel reserves and cut back sharply on civilian allocations. 25X1

In our view, the economic impact of future shortages on Nicaraguan industry and agriculture will increase over time even without unusual disruptions. With Managua's announced goal to eliminate the counterinsurgency this year, we expect military priorities to further divert oil supplies from the civilian sector. As a result, industrial and agricultural output will continue to decline and erode living standards further. 25X1

Long-Range Outlook for Soviet Supplies

We believe the USSR will continue to provide Nicaragua with the bulk of its oil needs and allow Managua a very lenient payment schedule to try to help the Sandinistas get through the next few difficult years. The recent decline in the USSR's oil production probably makes the relatively small cost of supplying oil to Nicaragua appear slightly more worrisome to Soviet planners. At the same time, in our assessment, the Kremlin will redouble efforts to entice Venezuela and Ecuador into oil swap deals and encourage Mexico to renew its support. While Soviet economic planners will probably be anxious to avoid a large, multiyear commitment to Nicaragua, in our judgment, the political imperative of maintaining the Sandinista regime in power would overrule economic considerations. An adequate supply of petroleum is critical for Sandinista military operations. The Kremlin can also reap propaganda dividends and strengthen its credentials as a reliable ally by advertising its role in helping the Nicaraguans overcome the adversities that Managua claims are caused by US aggression.

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Guyana: Economic Troubles Portend Closer Communist Ties [redacted]

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Despite Guyana's wealth of resources and official claims of recent progress, the country's economy is in a shambles. We believe that output plummeted about 10 percent in 1984 to barely 60 percent of the peak 1976 level. Exports of bauxite, alumina, sugar, and rice have been hurt by low world demand and excess production, pervasive corruption, mismanagement, and costly labor disputes. Meanwhile, President Forbes Burnham, unable to attract much Western aid and investment, has been exploring an alliance with his Marxist-Leninist political opposition, apparently in the hopes of gaining Soviet Bloc economic assistance. Even if a coalition government materializes, however, the outlook for Guyana's economy is bleak. [redacted]

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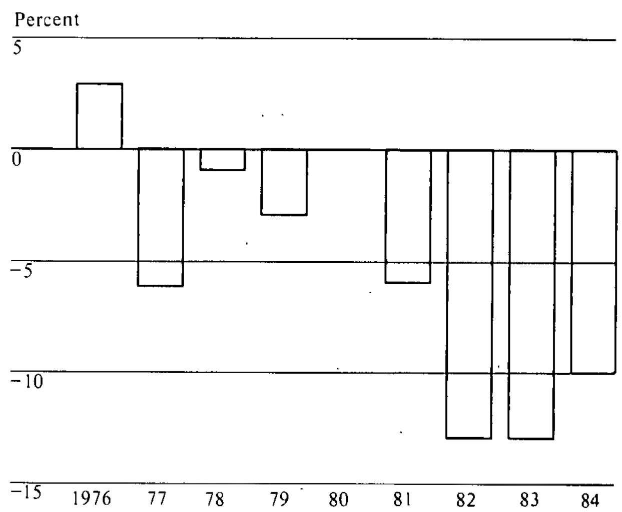
Guyana: Real GDP Growth, 1976-84



[redacted]

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A Beleaguered Economy

Guyana's depression represents the steepest economic decline of any Latin American country over the past eight years. Since 1976, Burnham has responded to the economic difficulties by expanding state control. The private sector's share of production is now only about 15 percent. Guyana's public finances have deteriorated. The economic slump and flourishing black market have slashed government revenues. At the same time, rising interest payments, growing losses in unprofitable public corporations, large consumer subsidies, and long-delayed wage hikes have swelled government expenditures. Since foreign financing has almost completely dried up in recent years, the deficit has been financed by borrowing from the domestic banking system and by printing money. [redacted]

At the same time, lagging export earnings and a chronic inability to obtain budgetary support from international financial institutions have crippled the country's ability to finance much-needed imports or repay its foreign debt. As a result, Guyana has been forced to implement stringent import restrictions, exhaust its foreign reserves, and build up large payment arrears in an attempt to make ends meet. External debt, which stood at $700 million at the end of 1982, climbed to $1.3 billion by December 1984. [redacted]

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Despite the grave economic plight, Burnham has been unwilling to take sufficient austerity measures to regain funding from international lenders. Past IMF programs have foundered on Guyana's repeated failures to meet agreed-upon fiscal and monetary targets; the last agreement in 1982 came

unglued after only three months. Burnham's refusal to undertake extensive economic restructuring, including a steep devaluation of the currency and revival of the private sector, has been a major obstacle in obtaining a new IMF accord. We believe that Burnham fears these measures would directly threaten his Afro-Guyanese power base—whose loyalty he has ensured with favors, privileges, and jobs in the public sector. Moreover, any revival of the private sector would disproportionately benefit the commerce-oriented Indo-Guyanese community, which makes up slightly over half of the population. [redacted]

Because the Inter-American Development Bank (IDB) has attached fewer strings than other potential Western donors, it is Guyana's only remaining source of sizable foreign funds and only international lender with which Guyana is current in its obligations. According to the US Embassy, the IDB last June planned project aid to Guyana worth $30-40 million annually during 1984 and 1985. The IDB also has continued work on a $40 million irrigation project. [redacted]

The economic unraveling has drastically reduced living standards for most Guyanese. The inflation rate is now roughly 30 percent annually, and the unemployment rate exceeds 25 percent. Endemic shortages of food, drugs, transportation, electricity, and water worsened in 1984. The educational system, once the Caribbean's best, has disintegrated. [redacted] basic survival increasingly consumes the attention of most Guyanese who traditionally have looked to emigration, not political action, as the solution to their misery. As a result, we believe that Burnham is increasingly aware that, unless he can improve the country's economic performance, he risks losing support even among Afro-Guyanese. [redacted]

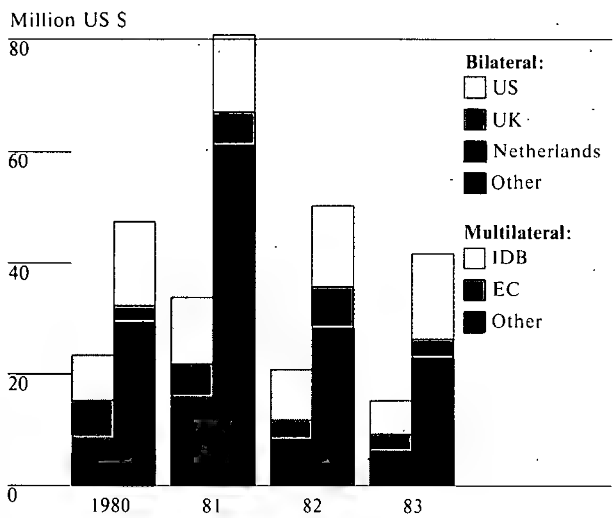
Tilting Leftward

Although Burnham's relations with Cuba and the USSR traditionally have been characterized by mutual suspicion, recent trends have generated greater interest on both sides in expanded ties. Guyana's collapsing economy and inability to garner much Western funding have prompted Burnham since 1982 to turn increasingly to the USSR and its allies for aid. [redacted] 25X1 Burnham reportedly is exploring the possibility of a coalition with Cheddi Jagan, the leader of Guyana's People's Progressive Party. In our view, Burnham may be raising the specter of a coalition with an eye toward its effect on both the West and Moscow. 25X1 He may hope that the prospect of Jagan sharing power would prompt the United States to offer Guyana incentives—such as softer IMF terms [redacted] 25X1 For the same reason, he may hope that Venezuela, Brazil, and other Western donors would step up their economic assistance. As for the Soviets, Burnham may hope that they would abandon their parsimony in the expectation of making progress in uniting leftist forces in the region. [redacted] 25X1

25X1

Moscow and Havana so far have shown little inclination to provide significant economic aid to Guyana. Since the early 1970s, Moscow and its allies have disbursed roughly $60 million in economic aid, compared with $315 million from Western bilateral and multilateral sources during 1980-83 alone. Nevertheless, relations are expanding, albeit slowly. The Soviet presence reportedly has been stable in recent years but may grow as a result of a recent Soviet agreement to provide a transport 25X1 aircraft, several helicopters, and related pilot training. For their part, the Cubans have courted Burnham more actively in recent months than at any time since establishing relations in 1972. The Cuban presence has grown to about 80 officials, mainly civilian advisers working on new agricultural or medical projects. 25X1 Still, we believe Cuba's economic troubles and distrust of Burnham will limit Havana to only small amounts of aid, security force training, and scholarships. [redacted] 25X1

Guyana: Western Aid Disbursements, 1980-83



[redacted]

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Meanwhile, other Communist and radical states are becoming more heavily involved in Guyana. [redacted] is primarily engaged in economic development projects. East Germany recently agreed to accept bauxite in exchange for development aid. [redacted] For its part, Tripoli, at present, assigns no more than 10 Libyans to its Islamic Cultural Center and to two agricultural joint ventures with Guyana. [redacted]

Burnham would likely agree to a coalition government with Jagan's party if he believes it is to his political and economic advantage. He especially would weigh the benefits and risks of Western-versus-Communist aid. An agreement with the IMF probably would reopen other Western financing and produce faster economic results than Soviet Bloc aid. Therefore, Burnham probably would try to extract sizable economic and possibly military aid from the Soviets and Cubans before allowing Jagan to assume a formal government role. Burnham might also hope that such an arrangement would undermine Jagan's political standing by having him share the blame for continued economic hardship and any subsequent repressive measures, such as strike breaking, that become necessary. [redacted] 25X1

Grim Economic Outlook

Regardless of the prospects for a coalition government, the outlook for Guyana's economy is poor over the near term at least. The progressive deterioration of capital stock, emigration of skilled labor, and erosion of farmland fertility probably will continue unabated. In addition, international market trends point to another bleak year for Guyana's major money earners:

- Foreign exchange stringencies and lagging world demand signal continued problems in the bauxite industry. Output and sales of refractory-grade bauxite may improve in 1985, however, under a March agreement with a US firm to provide $80 million in new investment as well as technical and marketing assistance. 25X1

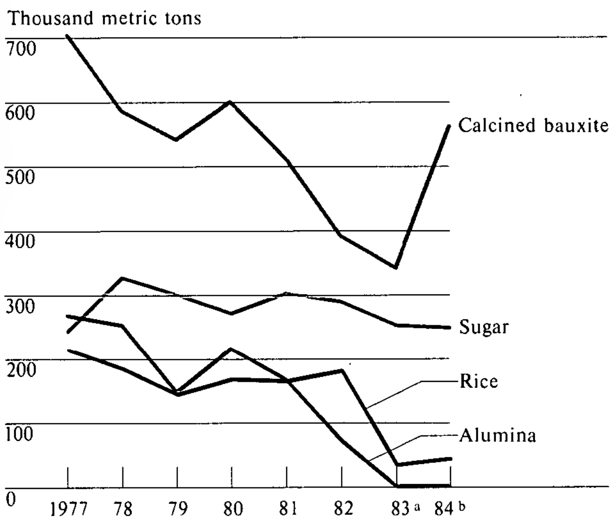
25X1

- World prices for rice are likely to remain weak this coming year. Moreover, the depletion of domestic rice stocks last year leaves little available for export this year, even if the rice harvest is better than anticipated. 25X1

- Sugar sales should fare no better. Industry experts expect world sugar prices to stay weak over the near term, and production difficulties—caused by prolonged shortages of fertilizers—will also hamper Guyanese sales. [redacted] 25X1 25X1

At present, the prospects for an IMF agreement, and subsequent access to other Western concessionary and commercial lending, are dim. According to Guyana's Finance Minister, even if a strenuous

Guyana: Selected Commodity Production, 1977-84



[a] Estimated.
[b] Projected.

[redacted] 25X1

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effort were made, Guyana would still be $9 million short of paying off its debt to the Fund in 1985. He also has cautioned that, although dialogue continues with the IMF for a $150 million credit, Guyana has been advised that Fund resources would be unavailable in the near future. The Finance Minister has also warned that hoped-for EC assistance to the bauxite industry might be linked to the conclusion of an IMF program. [redacted] 25X1

In these circumstances, the hardships of the vast majority of Guyanese are likely to deepen this year as supplies of basic foods and services continue to shrink. Rice and milk shortages are likely to occur in the coming months. In addition, Trinidad's growing economic difficulties apparently are prompting it to reconsider its oil supply arrangement with Guyana. Should Trinidad harden its credit terms, Guyana's already inadequate fuel and electricity supplies probably would be further reduced. In our view, the likely response to this deepening misery will continue to be emigration, not rebellion. [redacted] 25X1

New Zealand: Lange Turning the Economy Topsy-Turvy [1] [redacted] 25X1

Although the ANZUS controversy has dominated press coverage, we believe the electorate will judge Prime Minister Lange's Labor government according to its progress on the economy. Since the election last July, Labor has set in motion sweeping changes geared to improving New Zealand's international competitiveness. Lange's reform plan, however, has angered New Zealand's largest interest group—the farmers. Reforms proposed by Lange's conservative team of economic policy makers also rankle many of the Labor Party's traditional supporters, who favor protecting domestic industry and jobs. Thus, party infighting may prove to be Lange's political downfall—especially if the economy sputters—and he could easily turn out to be a one-term prime minister when elections are held in 1987. [redacted]

Responding to the Challenge

Under former Prime Minister Muldoon (1975-84), government policies led to the growth of inefficient manufacturing industries, such as automobile and electrical equipment assembly, and farming for already oversupplied international agricultural markets. Furthermore, government intervention in the wage-setting process, including awarding across-the-board wage increases without regard for skill content of the job or demand for the product, resulted in a high degree of work force rigidity. [redacted]

We believe Lange—elected on pledges to rekindle the economy—fully appreciates the magnitude of his challenge. Since the Labor Party came to power, Lange's economic technocrats have implemented a series of far-reaching reforms, including devaluing and later floating the New Zealand dollar, removing price and interest rate controls, and liberalizing restrictions on international flows of capital. In addition, the government's first budget—submitted in November 1984—attempts to reduce the budget deficit and encourages international competitiveness by raising taxes and charges for government services, reducing farm subsidies, and lowering import barriers. The reform agenda also includes limiting the power of the trade unions and overhauling the tax system. [redacted] 25X1

Public Reaction

At first, the public credited the new Labor government with acting decisively, and in September—after Lange's carefully planned and brilliantly executed domestic economic summit of government, business, and labor leaders—both Labor and Lange received their highest popularity ratings ever. [redacted] 25X1 25X1

Since then, however, the road has been rockier. Reaction to the November budget was sharp, immediate, and mostly critical. Although opposition to the budget has been tempered by the widespread realization that Muldoon's government left the country with serious economic problems, every interest group has voiced a complaint about particular provisions. Farmers estimate that they are asked to absorb more than 25 percent of the government's deficit reduction; retirees have bristled at the new surtax on their assets; union leaders are infuriated because they had expected broad tax relief in return for their promises of moderate demands in the December wage round. Consequently, public opinion polls have shown a sharp drop in Labor Party support. [redacted] 25X1 25X1 25X1

[1] This article summarizes a forthcoming intelligence assessment [redacted] 25X1

Money, Credit, and Debt: New Zealand Down, But Not Out

The Labor government faces continuing problems in managing external finances. Public-sector debt has reached approximately US $16 [a] *billion, with foreign obligations totaling about US $9 billion, according to the US Embassy. The country's debt to GDP ratio has placed it on par with such debt-ridden nations as Brazil and Mexico, and its credit rating has been lowered twice since 1982 by international rating services. Annual debt service is currently equal to about 20 percent of government revenue, and limits Labor's monetary and fiscal policy options.*

Beginning with the July devaluation of the New Zealand dollar, Finance Minister Douglas has introduced a series of measures to strengthen the financial sector. Partly for this reason, New Zealand has had no trouble financing a current account deficit that, according to the US Embassy, increased by US $330 million last year to US $1.4 billion in December 1984. Its imaginative debt rollover in September impressed many foreign economic analysts; one long-term and three short-term credit lines were created, each providing a full US $1.4 billion.

The volatility of the New Zealand dollar in February 1985—possibly caused by fear of US trade sanctions in the wake of the ANZUS crisis—encouraged Douglas to announce on 4 March the float of the dollar he had been preparing for months. The float has produced no marked revaluation, and the stability of the currency since then has allowed Douglas to fend off criticism that it would harm exporters and risk external manipulation of the exchange rate.

[a] *Dollar figures are based on the 5 April 1985 conversion rate of NZ $1.00=US $0.46.*

The Crusade Continues

Undaunted, Lange and Finance Minister Douglas are now aiming their reformist guns at the trade union movement. Although the government has been unable to escape its campaign promise to reinstate compulsory unionism, Douglas has had partial success in implementing labor market reforms. Union and business representatives have approved a new, more flexible framework for wage negotiations that:

- Encourages enterprise- and industry-level bargaining.
- Responds to supply and demand for particular skills.
- Takes into account changes in job content, including technological improvements that result in greater productivity. 25X1
- Reduces the government's role and increases the roles of the Arbitration Court, employers, and local union organizations. 25X1

Although wage settlements in the last few months have been moderate, averaging about 7 percent, we judge that Lange will face a serious challenge in the September round of wage negotiations. Inflation—currently about 12 percent—is eroding purchasing power, and the next round offers the unions a convenient forum to express displeasure with the government's overall economic program. 25X1 25X1

Lange's government has begun a major overhaul of the entire tax structure. Early this month, Douglas introduced a bill for a broadly based value-added tax. According to Douglas, the present system of steep marginal income tax rates discourages productive investment and risk taking, leads to tax avoidance, and is ineffective in collecting revenue. 25X1 25X1

25X1

Douglas also intends to remove distortions in energy pricing and has begun by putting local energy industries on a commercial basis with consumers bearing full costs. Future energy projects, he says, will have to operate without the government subsidies they received during Muldoon's years. [redacted]

Short-Term Economic Costs . . .

Although we believe reform eventually will improve export competitiveness and economic growth, the next two years will see an industrial shakeout, as Lange curtails large scale subsidies to industry, inevitably leading to job losses. With the uncertainty surrounding economic reform, job creation will probably be insufficient to absorb displaced workers. Industrial relations will be tense, as Lange publicly acknowledges, but New Zealanders are usually not very tolerant of high levels of strike activity. For this reason, we believe, the government may be persuaded to reintroduce some subsidies and import barriers to quiet labor protests. [redacted]

. . . And the Political Fallout

The government's policies aim for an export-led economy competitive in world markets. Trade union leaders charge that this implies a low-paid labor force and exposes New Zealand to the vagaries of demand and inflation of the global economy. They contend that the best course is to stimulate the domestic economy and continue to protect local industry and jobs. [redacted] 25X1

In our judgment, the government would be able to live with union opposition if sustained economic growth on the order of 3 to 4 percent annually could be achieved. With the prospect of two or three years of little or no growth, however, Lange can expect a serious challenge from the rank and file as well as from union leaders. Labor Party leftists will continue to be Lange's biggest worry, exasperated by his forsaking of the party's traditional interventionist, job-protective, and welfare-oriented approach to economic policy. [redacted] 25X1

Outside his party, Lange also faces increased pressures from a refurbished National Party. We see two primary causes for the National Party's rebound:

- Subsidy cuts will squeeze out marginally profitable farms. Many farmers—generally a National constituency—supported Lange in the last election. 25X1

- Support for the free-market-oriented New Zealand Party—formed in 1983 by businessmen, professionals, and some farmers disenchanted with Muldoon—has significantly dropped since he was ousted, with many of its voters returning to the National camp. [redacted] 25X1

Moreover, if the economy sputters, as seems likely, Lange will undoubtedly lose the votes of some of his Labor supporters. Their votes—plus the return of businessmen, professionals, and disgruntled farmers to the National Party—could cost him and the Labor government the 1987 election. [redacted] 25X1

25X1

Briefs

Energy

OPEC March Oil Production

OPEC produced an average of 16.8 million b/d of crude oil in March, only slightly below February levels. The only significant gainer was Iran, which upped production an estimated 100,000 b/d. Most other OPEC members remained at or slightly above their quotas with the exception of Nigeria, which continued to produce about 400,000 b/d above its allocation. Losers for the month were Saudi Arabia and Kuwait. For first quarter 1985, total OPEC crude oil production averaged approximately 400,000 b/d above the ceiling established in October of last year. From year-earlier levels, however, OPEC first-quarter output was down by 2 million b/d—or over 10 percent. 25X1

25X1

OPEC: Crude Oil Production *Million b/d*

	October 1984 Quota	1984	1985			
			January	February	March	First Quarter
Total	**16.00**	**17.7**	**15.5**	**16.9**	**16.8**	**16.4**
Algeria	0.66	0.7	0.7	0.7	0.7	0.7
Ecuador	0.18	0.3	0.2	0.2	0.3	0.2
Gabon	0.14	0.2	0.2	0.2	0.2	0.2
Indonesia	1.19	1.4	1.3	1.3	1.3	1.3
Iran	2.30	2.4	1.8	2.3	2.4	2.2
Iraq	1.20	1.2	1.3	1.2	1.3	1.2
Kuwait	0.90	0.9	0.9	1.0	0.9	0.9
Libya	0.99	1.1	1.0	1.0	1.0	1.0
Neutral Zone	[a]	0.5	0.5	0.5	0.5	0.5
Nigeria	1.30	1.4	1.4	1.7	1.7	1.6
Qatar	0.28	0.4	0.3	0.3	0.3	0.3
Saudi Arabia	4.35	4.4	3.3	3.8	3.6	3.6
UAE	0.95	1.2	1.1	1.2	1.2	1.2
Venezuela	1.56	1.7	1.6	1.6	1.6	1.6

[a] Neutral Zone has no production quota; output is divided evenly and added to Saudi and Kuwaiti totals.

25X1

Mexico Planning Transisthmian Oil Pipeline

[redacted]

PEMEX is planning to build a second pipeline across the Isthmus of Tehuantepec with Japanese assistance as part of an effort to increase exports to the Asian market. President de la Madrid has approved the project, which is scheduled for completion in 1988. The new pipeline will be capable of transporting a maximum of 600,000 b/d of heavy Mayan crude oil from the Gulf of Mexico to the Pacific Coast port of Salina Cruz. Japan receives 80 percent of its lifting in higher priced Isthmus crude through Salina Cruz. It has expressed interest in taking more Mayan crude that currently must be picked up in the Gulf, substantially boosting transport costs. The Mexicans are asking for Japanese financial assistance in the construction of the pipeline and loading facilities. The cost of the pipeline alone will be about $500 million, and, because of budgetary constraints, the Mexicans are unlikely to build it without foreign assistance. [redacted] 25X1

25X1

International Finance

New Delay in Philippine Financial Rescue Package

[redacted]

[redacted] the IMF concluded last week that Manila missed meeting several monetary and economic policy targets under its $615 million balance-of-payments loan. The Fund plans to establish new performance targets for the end of May in an effort to put Manila's economic adjustment program back on track. As a result, $160 million in disbursements—originally scheduled for release in March and May—will be postponed at least until July. Furthermore, even though a breakthrough is likely in negotiations on the long-stalled financing package from Manila's commercial creditors, new bank loans will be withheld until the IMF resumes its disbursements. Despite the missed targets and delayed disbursements, the IMF believes the Philippine adjustment program is still viable. [redacted] 25X1

25X1 25X1 25X1 25X1

[redacted]

[redacted]

25X1

National Developments

Developed Countries

Japan's Unions Win Bigger Wage Boost

Major Japanese unions have negotiated wage increases of between 3.9 percent and 5.6 percent for FY 1985, which began 1 April. The pay hikes—slightly higher than last year's—put an end to this year's annual spring wage offensive. The "shunto" was relatively quiet; for example, Japan's railway unions called off their planned strike after a last-minute settlement better than that of 1984. Higher pay rates should provide some stimulus to private consumption, which lagged GNP growth last year. Recent improvements in labor productivity will more than offset the increased wage costs for most Japanese firms. 25X1

25X1

Possible Japanese Limit on Orange Imports

MITI appears likely to reduce Japanese imports of US citrus by invoking the "extraordinary circumstances" provision of its recent import allocation policy for this summer's fresh orange imports. The new policy, announced on 5 March, permits importers to import less than their quota in one year and still receive a full allocation the following year. According to the US Embassy, an Agriculture Ministry official claimed that the Japanese regarded this year's California orange output—although 73 percent greater than last year—as tantamount to "a crop failure" because much of the fruit is smaller than Japanese consumers prefer. Importers, who claim heavy losses last summer because of high US prices and the requirement to use their full quotas, have pressed MITI and the Agriculture Ministry to implement the policy. A cutback in the 104,000 metric tons of oranges agreed upon in 1984 bilateral negotiations would be a setback to Prime Minister Nakasone's effort to boost Japan's imports. 25X1

25X1

25X1

France Further Liberalizes Financial Markets

The Finance and Economics Ministry recently announced new measures to free financial markets. A market for stock options will be created and, previously fixed, stock market commissions will now be negotiated within government-set limits. Corporate financing will be facilitated because the 1-percent tax on new stock and bond issues will be eliminated, and the ceiling on issues that can be made without government approval will be doubled to about $100 million (FF 1 billion) per year. These measures, the previous easing of credit and exchange controls, and the introduction of certificates of deposit, all indicate the Socialists' determination to make the financial sector more market oriented. Further reforms of exchange controls and improvements of mortgage financing are expected in the next few months.

25X1

25X1

Spain Approves Value-Added Tax

Madrid has approved legislation to introduce the value-added tax (VAT) next year in order to comply with promises to eliminate illegal subsidies under the GATT and to prepare for entry into the EC. Spain must contribute part of its VAT revenues to the EC after it becomes a member of the Community. A VAT will simplify the Spanish tax system by replacing 23 business taxes and will do away with the export tax rebate system. In the meantime, Madrid has lowered export tax rebates 15 percent for the second time since 1984. The switchover to the VAT will help reduce budgetary pressures and its inflationary impact—an estimated one-time, 2-percentage-point increase—should be short lived.

25X1

25X1

Less Developed Countries

Saudi Payment for Soviet Arms Shipments to Iraq

On 3 April, Soviet Deputy Foreign Trade Minister Zhuravlev acknowledged publicly for the first time that Saudi Arabia was supplying oil to the USSR as payment for Iraqi debt to Moscow—an arrangement apparently begun in 1983. Rather than payment for debt, however, Saudi oil is probably being used to partially finance current Soviet military shipments to Iraq. During 1984 Soviet military shipments to Iraq totaled $1.8 billion, while Saudi oil shipments on Iraq's behalf were worth about $360 million. Substantial arms shipments are again expected this year as the Iran-Iraq war continues.

25X1

25X1

Egyptian Foreign Exchange Rules Relaxed

[redacted]

Cairo last week announced substantial changes in the strict controls, adopted last January, on foreign exchange and imports. Private-sector importers will again be allowed to open letters of credit in foreign currency, in effect restoring the important role of nonbank foreign exchange dealers. Foreign branch banks will be permitted to resume issuing of letters of credit. Other 25X1 changes include a relaxation of import controls and greater flexibility for banking officials in keeping the official exchange rate competitive with the black-market rate. The new rules, which follow recent changes in high-level Egyptian economic leadership, further Cairo's long-term plans to decontrol the economy and make it more responsive to market forces [redacted] 25X1

Jordan Moves To Open Economy

[redacted]

Jordan's new government has moved quickly to reduce its role in the economy. Amman has canceled plans to require Jordanian majority ownership of all banks and eliminated rules governing operating hours for private businesses. In addition, Jordanian press reports indicate that some price controls may be 25X1 removed. These moves are not major in themselves but signal that Amman is serious about boosting the private sector. Jordan depends heavily on aid and worker's remittances from Arab countries, but economic difficulties in these states are prompting Amman to promote alternative sources of economic growth. [redacted] 25X1

North Yemen Floats the Riyal

[redacted]

The North Yemeni Government, under pressure from the country's bankers, has decided to float the riyal. Bankers expect a devaluation of roughly 17 percent. [redacted] the government hopes the 25X1 floating rate will enable it to ease import restrictions, which were imposed in 1983 because of the overvalued riyal. In addition, by ending support of the ex- 25X1 change rate, Sanaa probably expects to conserve scarce foreign exchange reserves that fell to an alltime low at the end of 1984. [redacted] 25X1

USSR Threatens Economic Assistance to Pakistan

[redacted]

[redacted] 25X1 The threat of economic reprisals is part of Moscow's tougher line with Pakistan since mid-1984, but these recent developments seem designed more for political effect. The Soviet- 25X1 financed steel mill is largely completed, and steel-related projects are a small portion of the roughly $300 million in economic aid promised in late 1983. Earlier this month the Soviet Ambassador reiterated Moscow's promise to build an electric power station in Pakistan. If the Soviets withdrew their technicians and stopped delivering spare parts, however, Pakistan would have problems operating the steel mill [redacted] 25X1

New Pakistani Finance Minister Seeks Reforms

25X1

The appointment of Mahbubul Haq as the Minister of Finance and Planning may lead to domestic economic reforms. A professional economist, he favors an overhaul of the tax system, a more productive use of savings, agricultural reforms, deregulation of industry, and decontrol of cooking oil and fertilizer prices. The World Bank, IMF, and the United States have been pressuring Pakistan for many of these measures. Any new reforms, however, are likely to be cautious because the conservative former Finance Minister, Ghulam Ishaq Khan, retains considerable influence as Chairman of the new Senate. Moreover, President Zia is not likely to sanction any radical moves that would alienate the general population or the large bloc of landlords and conservatives in the new assembly.

25X1

Tunisia's Economic Performance Mixed

25X1

Official figures show continued erosion in Tunisia's economy last year. Overall, real GDP growth was up slightly to 5.5 percent with a strong rebound in agriculture hiding continued weakness in petroleum, tourism, and phosphates—mainstays of the economy. Export growth accounted for only 15 percent of the increase in GDP. The current account deficit jumped nearly 40 percent to $900 million requiring foreign borrowing of $740 million and a drawdown of reserves. Debt service edged close to 20 percent of exports. Concern over the economy has caused Tunis to take stern measures to cut consumption and reduce spending, according to the US Embassy.

25X1

President Diouf Reforming Senegal's Economy

25X1

President Diouf has recently abandoned government policies in place since independence and announced far-reaching changes in agricultural policy that include the removal of government subsidies, the dismantling of government-sponsored marketing cooperatives, and new free market incentives to producers. Senegal's long-term economic problems and IMF-supported austerity program have driven Diouf's popularity to a low ebb. The President appears to be trying to regain some support by increasing incentives to farmers and reducing subsidies to middlemen. His moves, however, risk alienating the Islamic brotherhoods that control agricultural trade and benefit from established policies.

25X1

Sub-Saharan Agricultural Problems Continue

25X1

Weather in Botswana and Mozambique and poor agricultural policies in Lesotho will hold grain harvests substantially below normal again this year, according to US Embassy reporting. Botswana's drought is in its fourth consecutive year, with seasonal rainfall averaging about 35 percent, and in some areas 60 percent below normal. Total crop production is expected to meet only about 5 to 10 percent of national requirements. Drought has ended in much of Mozambique, but flooding has hit southern and central parts of the country. Crop losses are expected to be heavy, and Maputo has appealed for aid, especially for hard currency reconstruction funds. In Lesotho, the 1985 corn harvest is expected to be less than half that of last year, according to Embassy sources. To reduce dependence on South Africa, Lesotho last year halted the spraying of herbicides and insecticides by South African agricultural consultants. Maseru plans to reinstitute the spraying in a limited area for the next crop season.

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Mexico Backslides on Trade Reforms

[redacted]

Mexico City's new export promotion plan, announced last week, falls far short of trade liberalization measures outlined in Mexico's 1985 IMF program. Instead of a specific program, the government merely reaffirmed current programs and the need to phase out import licenses. Strong opposition from Under Secretary for Industrial Planning de Maria y Campos and the country's long-protected private sector thwarted the President's efforts to encourage exports by allowing companies unrestricted use of 40 percent of their export receipts for industrial imports, according to the US Embassy. They successfully argued that this plan would undercut local industry by opening the market too quickly. [redacted] 25X1 25X1

Economic Problems Ahead for Guatemala

[redacted]

The suspension of unpopular austerity measures has reduced the immediate threat to Chief of State Mejia, but deep-seated economic pressures and failing public confidence pose continuing challenges. The US Embassy reports that the government—in the wake of a public outcry provoking coup rumors—replaced the Finance Minister after consultations among private-sector leaders. Mejia was trying to impose reforms, including heavy taxes on coffee and cotton exports, to prevent further destabilization of the economy. Business leaders nevertheless publicly have rejected cooperation until Mejia removes the Ministers of Economy and Energy and Mines, as well as the Central Bank president. The business community also is demanding that the tax package totally be revoked, not simply suspended. The selection of a businessman as the new finance minister is unlikely to mollify business leaders who, as a result, may renew their call for a general strike. Despite continued support from senior military officers, Mejia will have trouble coping with such difficulties. [redacted] 25X1 25X1

Costa Rica Buys Banana Acreage

[redacted]

The Costa Rican Government recently bought United Brands' banana plantations on the west coast and will use them to grow other crops including cacao beans. After 18 months of negotiations, the US firm sold the 4,200 acres and 500 buildings for about $1.24 million to settle earlier contractual obligations. Worldwide overproduction, tough competition from Latin countries, and increasing costs made it uneconomical for the firm to continue production. Despite longer term benefits, the Monge administration's decision to reduce dependence on banana exports will result in a short-term loss of $40 million annually in foreign exchange earnings that will hurt debt servicing capacity, at least in 1985. In addition, the labor market will be adversely affected since the conversion to cacao requires approximately four years. [redacted] 25X1 25X1

Communist

Soviet Interest in US Petroleum Equipment

[redacted]

Soviet officials have recently indicated to several US firms a greater interest in buying a variety of petroleum equipment and have toned down allegations that US suppliers are unreliable. Possible purchases include pipelayers, oil pumps, oil-refining technology and equipment, a plant for sour-gas processing, and a facility to manufacture subsea oil and gas production equipment. Western 25X1

firms bidding as prime contractors for major field development are also soliciting US suppliers as subcontractors. The absence of rhetoric and the renewed interest in US equipment are in contrast to the attitudes exhibited last year, and may be intended to improve both political and commercial relations before the Joint Commercial Commission meetings in late May. Although these considerations suggest genuine interest in US equipment, some of the overtures may simply be tactical. Moscow routinely expresses interest in equipment and often requests price quotations to improve its bargaining position without any contracts resulting. [redacted] 25X1

19

Soviets Seek Western Chemical Technology

[redacted] 25X1

The USSR has solicited bids for an integrated fiber complex to be built at Kursk and a chlorine, vinyl chloride, polyvinyl chloride (PVC) complex at Zima in West Siberia. The Kursk complex will produce nylon tire cord, engineering plastics, polyester fiber, and other chemicals. The Zima complex will double the capacity of an existing facility. West European and Japanese firms are bidding on the projects that may include US technology. Payment for these turnkey projects—each worth about $1 billion—will be output from the plants. These complexes bring the total value of Western chemical facilities for which the Soviets have asked bids to more than $4 billion and underscore a continuing dependence on Western technology. Exports from these plants can be expected to intensify already stiff competition in the West European chemical market. [redacted] 25X1

Soviet Apple Computer Copy

[redacted] 25X1

The Soviet copy of the Apple II—called the Agat—is a lemon. Soviet computer experts recently called the machine a failure. [redacted] 25X1 The failure of the Agat is almost certainly a factor in the recent flurry of Soviet negotiations with US and other Western computer manufacturers for large quantities of personal computers. In addition to imports, Moscow wants to obtain manufacturing rights and technology. Although exports in the Apple II class are no longer controlled, all Western computer manufacturing technology is under strict COCOM embargo. [redacted] 25X1

Vietnam's Economy Improves Slightly

[redacted] 25X1

[redacted] 25X1 the Vietnamese economy grew by 5 percent in 1984—about the same as the year before. A 5-percent increase in foodgrain production to nearly 18 million metric tons provided the major stimulus, but the production of other crops, light industrial goods, and electricity also grew. Inflation remained steady at about 50 percent. Despite these gains, the outlook this year is bleak. Continued rapid population growth of 2.4 percent will offset much of the increase in food production, which we believe the IMF has overestimated. According to the US Embassy in Bangkok, procurement and distribution problems will probably force Hanoi to import 400,000 to 500,000 tons of rice this year. In addition, a severe foreign exchange shortage will limit imports of raw materials and equipment needed to revive heavy industry—now operating at less than 50 percent of capacity—and the depressed export sector. [redacted] 25X1

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